



The Royal Bank of Scotland Group

Pillar 3 Disclosure - Full Year 2008

16 April 2009

Introduction

- Background
- Scope & basis of disclosure
- Selected Tables
- Q&A

Background - Presenters

- Jonathan Gray (Head of Policy & Advisory, Group Regulatory & Operational Risk)
 - Responsible for the Group level relationship with the regulatory bodies
- Gavin Smyth (Head of Risk Business Improvement & Change)
 - Pillar 3 programme manager
- Chantal Geall (Deputy Group Chief Credit Officer)
- Paul Ingram (Group Head of Market & Insurance Risk) / Donna Whitehead (Head of Group Market Risk Analysis & Reporting)

Scope - Basel II

- ▶ Separate operational risk charge from credit risk
- ▶ Make capital requirements more sensitive to the risk taken by each bank
- ▶ Incentive for improved internal risk management
- ▶ Improved recognition of credit risk mitigation
- ▶ Increased transparency of risks, risk management and the link to capital

Pillar 1 – Minimum Capital Requirements

- ▶ Requires RWAs to be calculated for credit operational and market risk
- ▶ Various approaches with differing levels of sophistication

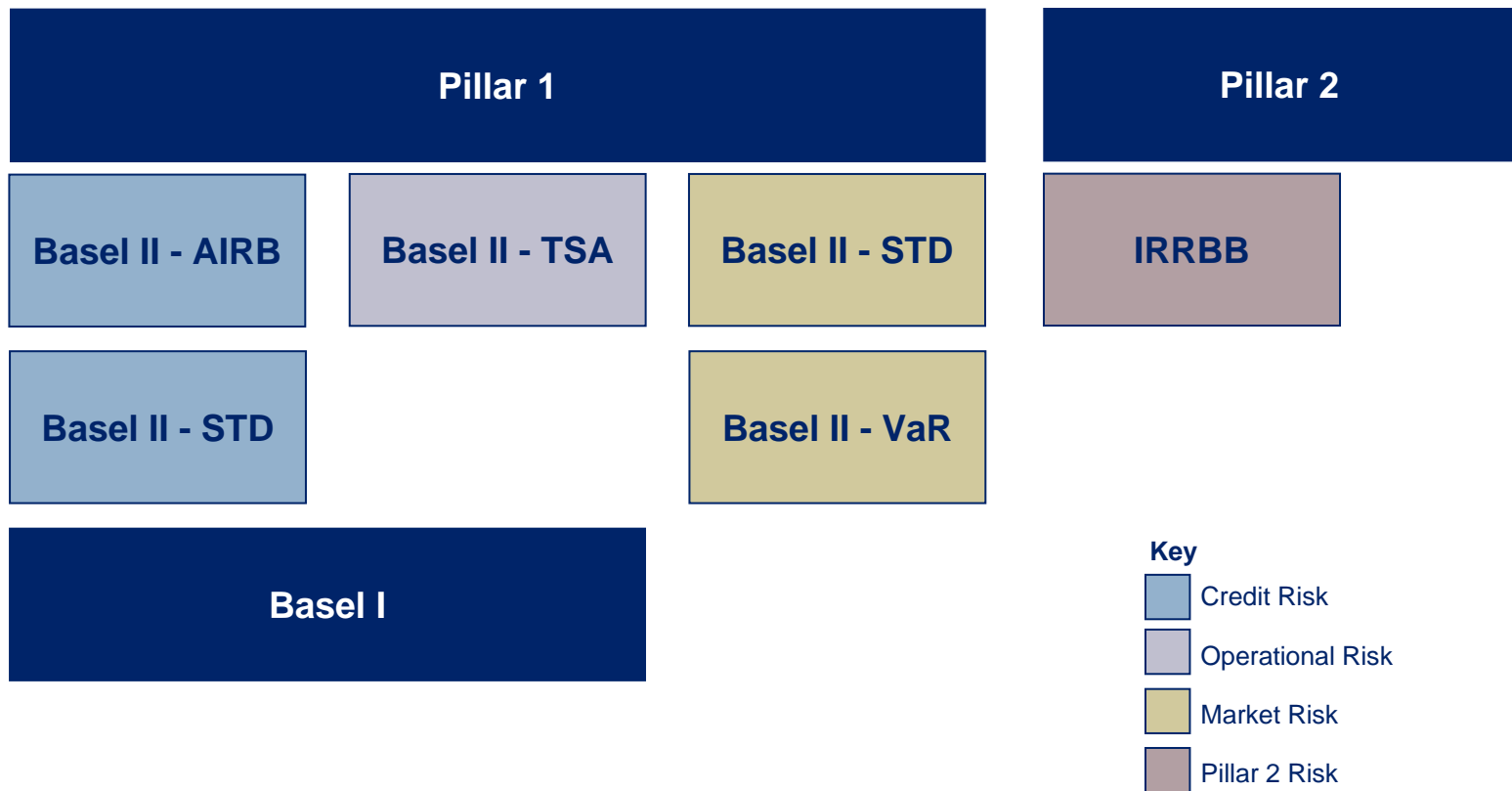
Pillar 2 – Supervisory Review Process

- ▶ Requires banks to undertake an Individual Capital Adequacy Assessment Process (ICAAP) for other risks

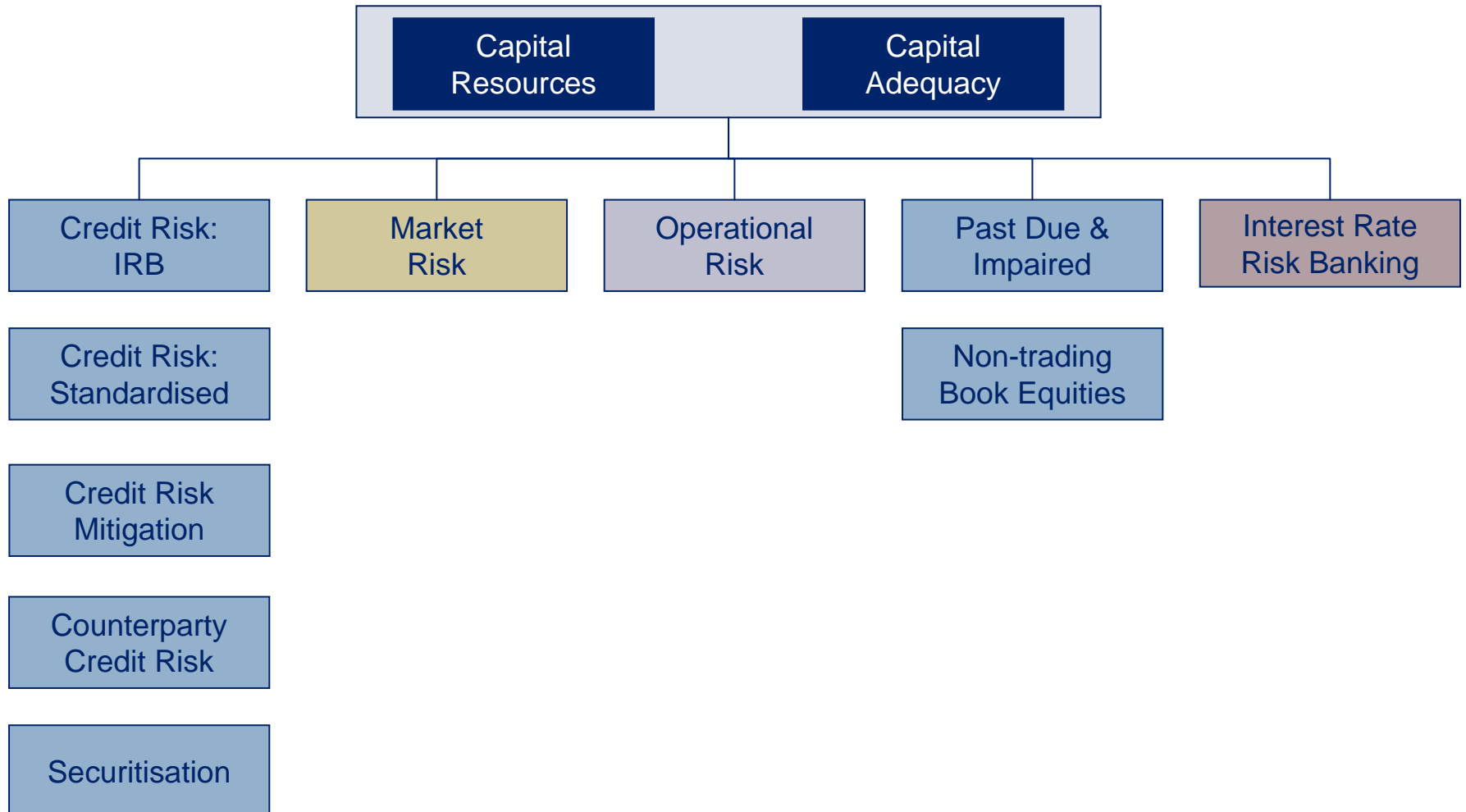
Pillar 3 – Market Discipline

- ▶ Requires expanded disclosures to allow investors and other market participants to understand the risk profile of individual banks

RBS Basel II Approaches



Structure of Pillar 3 Disclosure



Basis of Disclosure

- Consistency with 2008 Report & Accounts
 - Regulatory consolidation
 - Definition of exposure
 - Disclosure varies by Basel II approach

- Comparability with other banks
 - Varied international implementation of Basel II Accord
 - Inconsistent reporting definitions
 - Varied scope of permission

- Coverage
 - Provides additional information on Pillar 1
 - Excludes liquidity risk and some Pillar 2 risks

- Treatment of ABN AMRO
 - Basel I statutory consolidated basis
 - Data has not been incorporated in any of the Basel II credit, securitisation, trading book equities and operational risk disclosures



Selected Tables

Credit Risk RWAs & Minimum Capital Requirements

Credit Risk Approach	31 December 2008	
	Credit RWAs post CRM £m	Minimum capital requirement £m
Advanced IRB	237,578	19,006
Standardised	107,596	8,609
Counterparty credit risk	61,087	4,887
	406,261	32,502
ABN AMRO – Basel I	206,217	16,497
	612,478	48,999

- Minimum capital requirements are calculated as 8% of RWAs.
- Counterparty Credit Risk (CCR) is the risk that a counterparty defaults prior to the maturity of a derivative contract and relates to OTC derivative and repo products. (As shown on page 73 of 2008 Report & Accounts).
- RWAs and minimum capital requirements include intra-group exposures and non-customer assets (e.g. fixed assets).

Credit Risk Exposure by Approach

Credit Risk Approach	Exposure (excl CCR) £m		Exposure (incl CCR) £m	
Advanced IRB	643,919	42%	863,341	56%
Standardised	161,477	11%	166,041	11%
Counterparty credit risk	223,986	14%		
ABN AMRO – Basel I	505,079	33%	505,079	33%
	1,534,461	100%	1,534,461	100%

- Including counterparty credit risk (CCR) exposures, 56% of the Groups assets fall under the AIRB approach.
- 11% of assets remain on the Standardised (STD) approach, of which, two-thirds relate to Citizens which is planned to move to AIRB in 2011.
- Remaining Standardised balance largely relates to Wealth which has FSA approval to remain on this approach due to low loss experience.
- ABN AMRO remains on Basel I until the end of 2009. Exposures above are shown on a fully consolidated basis. From 2010 only the RBS assets will be shown.

Credit Risk IRB Exposures

IRB exposure class and sub-class	31 December 2008	
	Credit RWAs post CRM £m	Minimum capital requirement £m
Central governments and central banks	576	46
Institutions	3,717	297
Corporates	153,287	12,263
Retail	57,907	4,632
Retail SME	14,837	1,187
Retail secured by real estate collateral	18,930	1,514
Qualifying revolving retail exposures	11,822	946
Other retail exposures	12,318	985
Equities	7,951	636
Exchange traded exposures	4,170	334
Private equity exposures	2,064	165
Other exposures	1,717	137
Securitisation positions	8,921	714
Non-credit obligation assets	5,219	418
	237,578	19,006

- Exposure classes are defined by the FSA Handbook.
 - Institutions only include entities that are authorised to conduct certain activities.
 - Large SME customers with an exposure greater than €1m are included under Corporates but will have an industry sector of Personal.
 - State owned companies operating in or with oversight responsibilities for certain industries are classified under the Central Governments and Central Banks.
- Non-credit obligation assets include non-customer assets (e.g. fixed assets).

Credit Risk IRB Exposures by AQ band

31 December 2009

Central governments and central banks by asset quality band	EAD post CRM £m	Exposure weighted average LGD	Exposure weighted average risk-weight	Undrawn commitments £m	Undrawn weighted average CCF
AQ1	69,984	6.3%	0.6%	14,636	17.5%
AQ2	49	38.0%	390.1%	-	-
AQ3	111	24.1%	95.2%	72	45.9%
AQ4	69	65.2%	83.8%	102	24.9%
AQ5	55	59.8%	101.0%	111	26.0%
AQ6	54	76.0%	215.4%	48	29.1%
AQ7	61	44.5%	137.7%	4	49.1%
AQ8	-	-	-	-	-
AQ9	-	-	-	-	-
AQ10/default	-	-	-	-	-
	70,383	6.5%	1.4%	14,973	17.7%

- Asset Quality (AQ) bands are an aggregation of the wholesale and retail PD bands used to manage the business.
- Tables show IRB assets only (including CCR products).
- Definition of 'exposure weighted average exposure' may vary between banks.
- Retail PD vs. Expected Loss bands.

Credit Risk IRB Expected Loss vs. Actual Loss 2008

IRB exposure class	Expected loss as at 31 Dec 2007 £m	Impairment charge for year ended 31 Dec 08 £m
Central governments and central banks	5	-
Institutions	40	81
Corporates	2,470	2,307
Retail SME	993	142
Retail secured by real estate collateral	158	55
Qualifying revolving retail exposures	1,227	590
Other retail exposures	2,717	473
Equities	14	-
	7,624	3,648

- Differences between expected loss (EL) and impairment charges:
 - Observable data
 - One year time horizon vs. point in time event.
- Only relates to IRB assets as EL is not required under the Basel II STD approach. EL and impairment charge for 2008 therefore excludes ABN AMRO and Standardised (£3.4bn pro-forma).
- Impairment charge excludes trading asset write-downs of £5.8bn.
- Actual loss defined as impairment charge rather than impairment balance.

Credit Risk IRB Actual vs. Predicted Defaults for 2008

IRB exposure class	Probability of default as at 31 Dec 2007 %	Actual defaults for year ended 31 Dec 08 %
Central governments and central banks	0.83	-
Institutions	1.04	0.23
Corporates	1.72	2.70
Retail SME	3.78	4.37
Retail secured by real estate collateral	1.41	1.29
Qualifying revolving retail exposures	2.51	2.41
Other retail exposures	5.24	4.90
Equities	2.15	1.35

- Table shows predicted loss as at 31 December 2008 to the actual counterparty defaults experienced during the year
- Impact of 2008 market conditions on Corporate and Retail SME exposures
- Comparability to other banks:
 - Through-the-cycle vs. point-in-time models
 - Inclusion of Q4 2008 loss data
 - Weighted averages
 - Retail definition of default

Credit Risk Standardised Exposures

31st December 2008

Standardised exposure class	Credit RWAs post CRM £m	Minimum capital requirement £m
Central governments and central banks	1	-
Regional governments and local authorities	21	2
Administrative bodies and non-commercial undertakings	97	8
Multilateral development banks	-	-
Institutions	870	70
Corporates	54,070	4,326
Retail	31,258	2,501
Secured by real estate property	5,454	436
Past due items	1,424	114
Securitisation positions	651	52
Other items	13,750	1,100
	107,597	8,609

- Exposure classes are defined by the FSA Handbook.
 - Institutions only include entities that are authorised to conduct certain activities.
 - Large SME customers with an exposure greater than €1m are included under Corporates but will have an industry sector of Personal.
 - State owned companies operating in or with oversight responsibilities for certain industries are classified under the Central Governments and Central Banks.
- Majority of Standardised portfolio relates to Citizens which is planned to migrate to AIRB in 2011.
- Corporates include intra-group assets.
- Non-credit obligation assets include non-customer assets (e.g. fixed assets).

Market Risk Minimum Capital Requirements

Market risk: trading book & other business minimum capital requirement	31 December 2008 £m
Trading book business – interest rate position risk requirement	145
Business activities – commodity position risk requirement	3
Total (standard method)	148
Capital requirement for aggregation entities	1,976
VaR model based position risk requirement	1,593
Total position risk requirement	3,717

- Table shows the market risk minimum capital requirements under both the Standardised and VaR model approach.
- The only position risk requirements (PRR) shown relate to the Standardised approach. The majority of the Groups market risk capital requirements are calculated using the VaR model.
- The aggregation entity capital requirement relates to the RBS Consolidated aggregation of which the majority relates to ABN AMRO.

Significant Subsidiaries

31st December 2008

Minimum capital requirements - Risk Type	RBS Consolidated £m	NatWest Consolidated £m	Ulster Bank Group £m	ABN AMRO £m	Citizens £m
Credit risk	33,188	8,042	2,218	16,497	5,818
Market risk	2,418	261	8	1,299	-
Operational risk	2,932	1,197	145	-	418
	38,538	9,500	2,371	17,796	6,236

- The FSA rules require banks to disclose the capital resources and capital requirements of their significant subsidiaries.
- Significant subsidiaries were not defined by the FSA.
- Significant subsidiaries can not be aggregated to reach the consolidated Group numbers.



Questions?
